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ABSTRACT

The importance of higher education in providing the skilled labor force needed to respond to changing technologies; the cost-efficiency of independent higher education; and implications for government, industry, and independent higher education are considered. The most readily changing technologies include computers and electronics, satellite communications, automation and robotics, integrated financial services, and a range of technologies in medicine and health. Since developing and implementing new technologies will require technically trained people, the educational establishment can assist the transition to sophisticated machines by educating the young and updating the training of adult workers. Broadly-based education and the ability to learn and convey knowledge will continue to be important. Four studies on the relative costs of independent and public higher education are noted. It is concluded that considering all costs and sources of funds provides insufficient evidence to determine whether independent or public colleges are more expensive; however, considering only the costs to state taxpayers provides evidence that independent schools are less expensive. It is estimated that in 1980-1981, about 15 percent of all students receiving aid in independent higher education had unmet need (the difference between education costs and available resources) in excess of $1,500. Inflating family income and all college costs, and computing the aid reductions that would occur if all the proposed federal cuts in student aid are accepted, raises the fraction with unmet need over $1,500 (1980-1981 dollars) to 40 percent in the 1983-1984 school year. This would affect 279,000 high-need students whose continuance in independent colleges and universities would be in danger by fall 1983. (SW)

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IN
INDEPENDENT HIGHER EDUCATION

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by

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July 1982

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THE PUBLIC STAKE IN INDEPENDENT HIGHER EDUCATION

Background

These are difficult times for the nation's independent colleges and universities. Costs are up. Campus recruiting is down. Student aid and research funds are being cut. The future of independent higher education is in jeopardy. Few are questioning the priorities and policy shifts that led to the current situation. That's surprising; it's also short-sighted. Higher education is critical to future economic prosperity, and (at least as regards costs to state governments) the most cost-effective higher education is provided by the independent sector.

The remainder of this century will make enormous demands on the country's education and training establishment. Education is crucial to the absorption of new technologies, the retention of our central place in the world economy, and keeping economic growth high and inflation low. Government, industry, and independent higher education should rededicate themselves to seeing that the nation's education needs are met. The future depends on their success.

The Importance of Higher Education

After the Second World War, there was a series of radio panel discussions about the future of Japan. Six commentators participated in these discussions. Three were from the United States -- two economists, Theodore Schultz and Martin Bronfenbrenner; and a sociologist, Louis Wirth -- and three from Japan. Five of the six expected Japan to have terrible problems recovering its pre-war prosperity. It was, after all, a small, overpopulated country with few natural resources and a capital stock that had been severely damaged during the war.

But the sixth commentator, who later would share the 1979 Nobel Prize in Economics (and be my mentor at the University of Chicago), pointed out that Japan had a large population of educated, skilled, and industrious people. It was Theodore Schultz who believed that these people could pull Japan out of its difficulties, that they were its (human) capital. Coal was cheap. Iron was cheap. Energy was cheap. The secret lay in international trade: buying raw materials, creating finished products of greater value, and reselling at a profit.

There is no suspense in this story, since we all know now that Schultz was right. A recent Wall Street Journal article by Peter Drucker recounts the importance of the education and skill of the Japanese, stating (correctly) that these qualities, and not government-industry cooperation nor economic planning, have been the most important contributors to Japan's successes.

The situation was much the same for Germany. The Marshall Plan was important but the people and their training were even more important. British and German economists expected long-term problems, but rapid recovery, based primarily on the skill of the people, was the reality.

The most impressive educational accomplishments, however, were not in Japan or Germany. They were in the United States. We created a tremendously successful economy with science and technology that were the envy of the world. We captured more than half the Nobel Prizes in science and medicine. Our products achieved wide market penetration both in the Free World and in the Eastern bloc. The world beat a path to our shores to study in our colleges and universities.

The 1960s and 1970s witnessed rapid growth in the size of our educational establishment with a swift rise in the relative size of the public sector (much of this growth occurring in two-year colleges). Independent colleges and universities somehow retained and increased their influence, despite a huge imbalance in subsidies toward the public sector. This accomplishment reflected more business-like management, increased generosity of industry and alumni, continued high-quality education, and a rise in federal grants and loans to students.

Growth in the size and skill of the labor force was the main engine of economic progress during the 1970s. Business investment was depressed and increasingly focused on pollution abatement. R&D spending made relatively few contributions. Energy was an unmitigated disaster. Thus, it was up to workers and their talents to provide the decade's growth.

Now, in the early 1980s, the leading role of education is more crucial than ever. This is because -- even with the current high-unemployment situation -- the country is on the verge of severe and long-lasting shortages of skilled and educated labor.

The rapid decline in the traditional college-age population soon will combine with a cornucopia of new technologies and a resurgence in business investment to lead (as the recession recedes) to skill shortages that will appear out of the blue like gas lines in 1973 and 1979. There will be a rapid and debilitating rise in the list of critically short skills. If the shortages are not overcome, they will lead to a number of adverse effects: economic growth will suffer; technological improvements will be slowed; and our international competitiveness will be endangered.

Some shortages already are apparent. A recent National Science Foundation study reported shortages, as of late fall 1981, in 40 percent of the scientific and engineering areas studied. My conversations with major corporations have confirmed the validity of these findings. The economic deterioration since last fall has eased the shortages somewhat, but progressive companies consider meeting their skill requirements to be a major issue, both for this year and for the future.

The requirements will be keyed to the emerging technologies in what has been called, with only moderate hyperbole, the Second Industrial Revolution. The most rapidly changing areas include computers and electronics, satellite communications, automation and robotics, integrated financial services, and a range of technologies in medicine and health. Research Triangle Park in North

Carolina, Massachusetts Route 128, and California's Silicon Valley are harbingers of the future, and this future is not at all distant.

Developing and implementing the new technologies will make huge demands on our cadre of technically trained people, and the techniques will evolve continually. Even those in non-technical areas will be profoundly affected, as computers and other technically sophisticated machines find their way into every corner of our economy. The educational establishment can help facilitate this transition by educating the young and by providing opportunities for adult workers to update their training.

Broadly-based education will continue to be important in the new era. In fact, the ability to learn and convey knowledge will become more critical than ever. Education can help smaller numbers of better trained workers to do the work of larger numbers. The future of the economy depends on workers' and educators' success in preparing for the sweeping changes of the next few years and on finding ways to educate all who will need to learn about these changes.

The Cost-Efficiency of Independent Higher Education

Independent colleges and universities must play a central role in meeting the education needs of the future, both because they are storehouses of talent and because they are cost-effective providers of education.

There is surprisingly little research relating to the relative costs of independent and public higher education. Even with the help of Frank Balz of the National Institute of Independent Colleges and Universities, I was able to locate only four studies that are directly pertinent to this issue: a Massachusetts study completed in 1975 by Boston University; another covering the 1978-1979 school year (public only) by the Council for Postsecondary Education of the State of Washington; a study for the 1981-1982 school year by the Federation of Independent Illinois Colleges and Universities; and a Carnegie Council on Policy Studies in Higher Education study, which provides estimates of state student aid expenditures for students in independent higher education for each state in 1975-76.

On careful reading of these studies, I conclude that (1) there is insufficient evidence to determine, when all costs and sources of funds are counted, whether independent or public colleges are more expensive; but (2) considering only the costs to state taxpayers, independent schools are clearly less expensive.

- The Massachusetts study showed public colleges to be moderately more expensive, counting expenditures by students and by the state government ($4,848/pupil versus $3,738/pupil in FY 1975). This does not answer the question of total costs, including amounts paid by the federal government, but it does frame the issue in a way that state governments can appreciate.

  These differences cover only one state in one year, and they are not large enough to support a general conclusion that public education is more expensive. What does make sense is the assertion in the study that

building new classrooms or setting up new laboratories is bound to be more expensive than continuing to use those already in place. Furthermore, as an economist, I would expect independent higher education to be less expensive than its public counterpart on a quality-adjusted basis. This is because the discipline of the market works, and students in independent colleges and universities pay a larger share of the costs of education than do those in the public sector. Thus, they are presumably more demanding of their schools and receive more value per dollar spent.

- With regard to costs to state governments, in Massachusetts the relevant figures are about $5,500/pupil for the public schools in 1980-81 (inflating the 1975 figures by increases in the CPI) versus about $60/pupil in the independent sector. The comparable figures for Illinois in 1981-82 are $4,712 for public universities, $1,935 for community colleges, and $668 for independent colleges. State expenditures on students in independent higher education in 1975-76 was zero in 12 states and the median was only about $100, according to the Carnegie study. Finally, the Washington State study showed 1978-79 costs of public higher education ranging from $1,669 for the first year in a community college to $4,447 at Evergreen State College. Using these figures, and after discussing this issue with educators in other states, I conclude that the state government cost is clearly larger in state institutions. This is not surprising; it simply says that the support is heavier in the more heavily subsidized sector. In the independent sector, the lesser state subsidy is made up by the student and his/her parents, a point made forcefully in the Massachusetts study. If the student shifts to the public sector, this student-to-education subsidy is lost and one must either buy less education or pay more.

  Discussions of this issue have been clouded by recent assertions that partially empty classrooms and underemployed teachers in the public sector could be turned, at little or no cost, to educating students displaced from independent colleges. Apart from the callousness that such an argument implies about independent schools and their faculty and staff, it is most likely fallacious even in the short run. Underemployed faculty and half-empty classrooms are seldom located in rapidly growing geographical areas or suitable for teaching the disciplines that are in greatest demand, so there would be significant costs even in the near term. In particular, larger numbers of public college teachers might otherwise be laid off or fewer might be hired if students stayed in the independent schools.

  Over a longer period, the talents and facilities that the independent sector could bring to filling the skill needs of the state would have to be duplicated at greater cost (and without the student-to-education subsidy alluded to above) in public colleges. The state would start to lose out in competition for new high-tech plants; many of its young people would go elsewhere to pursue higher education and a career; and income and employment would fall. Combatting these losses would eventually require construction of new state campuses, at great cost; or an even more severe long-term decline would ensue.

Taking into account only some of these adverse effects, I calculated that disappearance of the independent colleges and universities from Massachusetts in the 1980-81 school year would have cost the state about 6 percent of its personal income and 7 percent of its non-farm employment. (Taxes would also have risen sharply, by as much as $242 million in that year.) Other researchers have calculated similar economic impacts for other states.

Preservation of the independent colleges and universities should be a top priority of state governments. Helping the schools to finance state-of-the-art training is equally important.

The overall scope of the federal cuts in student aid is by now well-known, but I was frankly surprised to see how deeply these cuts slice into the funds students use to pay for an independent higher education. Virginia Hodgkinson and I looked at this issue recently, using the NIICU Student Aid Recipient Data Bank. In 1980-81, we found that about 15 percent of all students receiving aid in independent higher education had unmet need (the difference between education costs and available resources) in excess of $1,500.

Inflating family income and all college costs by a forecast of CPI inflation, and computing the aid reductions that would occur if all the Administration's proposed cuts were accepted, raises the fraction with unmet need over $1,500 (1980-81 dollars) to 40 percent in the 1983-84 school year. This 25 percent additional increase would hit 279,000 high-need students whose continuance in independent colleges and universities would be in danger by fall 1983. (Raising the need cut-off to $2,000 changes these figures only slightly; the number of endangered students is reduced to 222,000.)

Changes in federal tax laws are also moving in a direction that is worrisome for independent higher education. The rise in the size of untaxed bequests, combined with the removal of all limits on the untaxed amount that can pass to one's spouse, may reduce bequests to colleges. Similarly, the general reduction in marginal tax rates, laudable in itself, may lower the incentive to give by reducing the resulting tax savings. Although no-one knows for sure what effect these changes may have, Rudolf Penner of the American Enterprise Institute, for one, expects them to lead to a significant reduction in gifts and bequests. I agree.

A Plan for the Future

Pulling all this information together, it is clear that the continued financial health of the independent sector of higher education is in jeopardy. And this is occurring just as we need desperately to be tooling up all available means for meeting the huge higher education needs of the future. Clearly, what is required is a renewed commitment on the part of all concerned to preserve the independent colleges and universities and help them grow. Only in this way can the country fill its skill requirements for the future, continue to compete in international trade ensure that income will grow, and combat inflation and high interest rates.

Federal and state governments should recognize the vital importance of higher education and commit to a level of aid that is commensurate with the value of the enterprise. It then becomes critically important that the aid be distributed in a cost-efficient manner. Cost-efficient distribution of aid should allow the preservation of most colleges in both the public and independent sectors.

Industry should plan for future skill needs and then take steps to ensure that the schools will be able to meet these needs. This may involve agreeing to hire a certain number of graduates of a particular description, planning a retraining program for adult workers jointly with a local college, or directing aid to the most critical programs in area schools. At a minimum, businesses should inform the colleges from which they draw graduates just what their skill needs are likely to be in the next few years. Industry should also understand that when money gets as tight as it is now, colleges start looking for programs to terminate. High-cost technical programs whose faculty keep leaving to take better jobs are vulnerable to these cost-cutting initiatives.

Independent higher education should take all possible steps to meet the needs of the future within its financial constraints. Independent colleges and universities have managed to compete with low-tuition public colleges in the past by offering better courses of instruction. A renewed dedication to this principle is needed today. Independent colleges and universities will have to be smarter, leaner, and have an even better perception of the market than they have had in the past. They will have to seek all possible ways to provide less expensive (or more valuable) education. They will have to be innovative in the search for new aid packages that can help students to meet the costs of their programs.

Finally, independent colleges will need to make sure their students understand fully the tremendous value that a well-focused higher education can have today. The days of many graduates and few jobs are strictly numbered. Salaries of new graduates will soon rise, as the eighties begin to look more like the labor-short sixties. The largest gains will go to those who are trained in the new technologies, especially if they also have good business sense, but all disciplines will see some increase in the returns of education.

Every student needs to understand clearly just how different the future will be from the past. In particular, all students, even those in non-technical majors, should have an opportunity to learn about computers. Reading, writing, and computing are the basic skills of the new age. Colleges owe it to their students to tell them this.

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This report is based on an address he gave at the 1982 State Association Executives' Council Annual Summer Workshop in Nashville, Tennessee.